

RISK MANAGEMENT

For a decade now, Novozymes has had a vision of creating value in the broadest sense. We aim to create a cleaner environment, better lives, and better business. The way Novozymes is managed reflects this, as management systems are set up to seek opportunities in all these areas while at the same time reducing risk and ensuring compliance with rules and regulations.

The process of identifying and managing risk is integrated into the management systems at Novozymes. We define risks as "events or tendencies that can prevent the company from achieving its overall targets - including financial, environmental, and social targets - or negatively affect our image or our future results and activities." Novozymes strives to identify risks as early as possible and, once they have been identified, act and follow up on them.

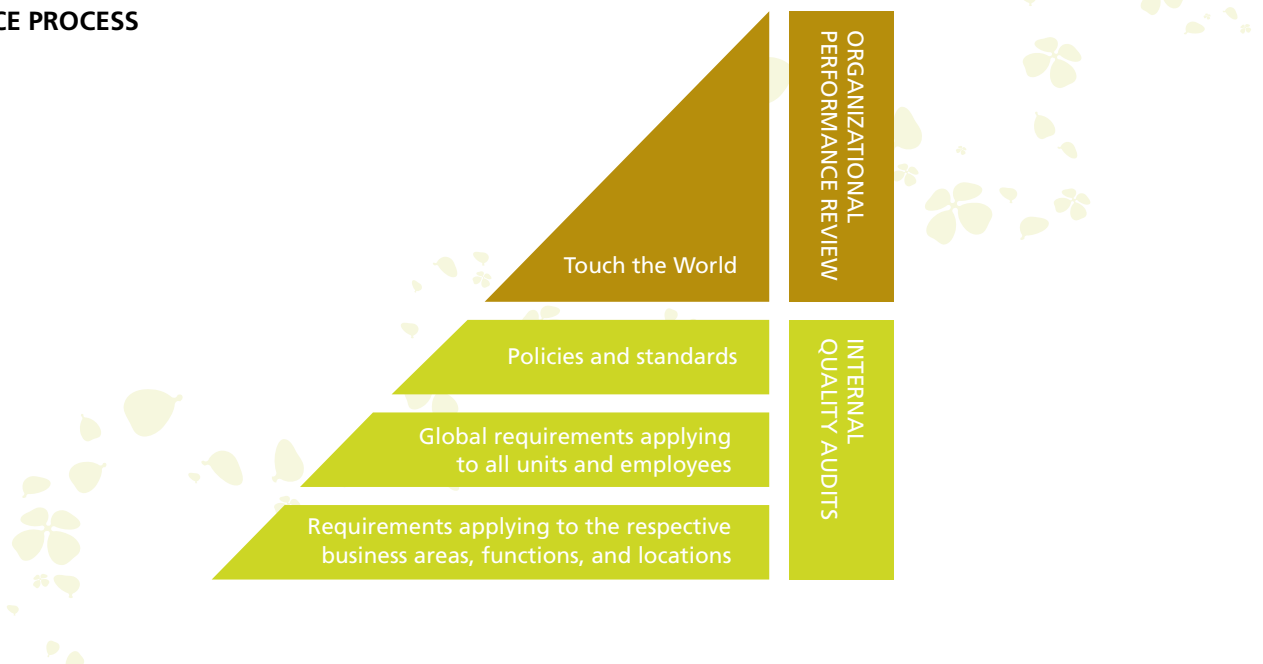
At the top of the management system, Touch the World sets out the company's vision, company idea, commitment, and values. It guides us in everything we do and outlines Novozymes' philosophy. By acting in accordance with these principles, we encourage the right behavior and thereby reduce the risk of misconduct. To ensure that the company lives up to the values in Touch the World, an organizational performance process is conducted annually where the

impact of each business unit's work to support and uphold the principles in Touch the World is assessed. This process is overseen by Executive Management and the results reported to Board of Directors.

Risks are often related to external factors affecting our achievement of targets, but can also be related to internal procedures, such as errors leading to the misstatement of information, malfunctioning of products, etc. Novozymes strives to minimize these procedural risks through the extensive use of quality management systems and ISO certifications, which include general policies and standards, as well as detailed control and action requirements covering both global procedures and specific requirements dependent on location, business area, and function.

To ensure compliance with quality management systems, a large number of internal quality audits are performed. Each year, a report on compliance with these systems is submitted to Executive Management.

COMPLIANCE PROCESS



REACH SUPPORTS NOVOZYMES' BUSINESS STRATEGY

REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) is a European Union (EU) regulation which entered into force in June 2007, replacing some 40 existing EU regulations and directives on chemicals. More than 30 different enzymes need to be registered by 2018 as they are regarded as chemicals under REACH. Novozymes' enzymes for industries such as detergent, leather, textile, and biofuel require registration.

First mover on registration

Novozymes was the first of the European enzyme manufacturers to register enzymes produced in volumes of more than 1,000 tons per year, which is the first major registration milestone under REACH. The enzyme groups in question are proteases (mainly used in the detergent industry) and glucoamylases (mainly used in the production of starch and fuel).

With the ambition of being the first to submit REACH dossiers, Novozymes took on sole responsibility for assessing the necessary risk and safety data for the enzyme industry as lead registrant. Novozymes has successfully submitted the required data in two comprehensive dossiers representing hundreds of products. These include exposure scenarios documenting adequate control of risks.

Regulatory requirements as opportunities

Novozymes looks positively on REACH, as the increased focus on sustainable solutions outweighs the increased burden of compliance. One important objective of the regulation is to encourage the substitution of hazardous substances with safer substances or technologies as economically and technically viable alternatives become available.

REACH has the potential to drive innovation and sustainable growth through the replacement of harsh chemicals with safer biological solutions. REACH therefore supports Novozymes' ambition and business strategy by stimulating customer demand for sustainable solutions, where enzymatic and other biological solutions are key alternatives.

Novozymes is implementing all the requirements of REACH as they come into force in order to ensure uninterrupted supplies to customers. Given the high quality of the safety data and competencies we have developed together with our customers, we are in a good position to deal with the requirements. Novozymes also sees REACH as a great opportunity to implement high global safety standards for enzyme products.

Timely and accurate reporting

Novozymes attaches great importance to timely and accurate reporting, as this is considered key to being a trustworthy company.

Novozymes' risk management and internal controls relating to financial reporting are designed to facilitate:

- Presentation of management accounts that allow the Group's performance to be measured, evaluated, and monitored
- Presentation of financial statements that provide a true and fair view without material misstatement, and comply with International Financial Reporting Standards as adopted by the EU, and other additional disclosure requirements for the annual reports of listed companies

Novozymes' internal controls and risk management systems are updated on an ongoing basis and have been designed with a view to discovering and eliminating errors and defects in the financial statements. However, as there is always a risk of misuse of assets, unexpected losses, etc., the internal controls and risk management systems can only provide reasonable and not absolute assurance that all material errors and defects are discovered and eliminated.

The internal controls and risk management systems also cover environmental and social data in The Novozymes Report.

A more detailed description of Novozymes' risk management and internal controls concerning the financial reporting process can be found in the statutory report on corporate governance fulfilling the requirements in Section 107b of the Danish Financial Statements Act.

The financial reporting process is monitored by the Audit Committee. As part of this monitoring, all cases of fraud and concerns raised either through the whistleblower system or directly by internal or external personnel are reported to the Audit Committee. Six cases were reported in 2010. Four cases led to the dismissal of employees, of which two were reported to the police.

Fulfilling sustainability reporting requirements

Under Section 99a of the Danish Financial Statements Act, it is mandatory for large companies to report on corporate responsibility. As a member of the UN Global Compact, Novozymes prepares a Communication on Progress that is published in Supplementary Reporting. This Communication on Progress fulfills the requirement for the reporting on corporate responsibility. In addition to this, integrated financial, environmental, and social reporting is included in The Novozymes Report.

Risks, opportunities, and stakeholder engagement

While Novozymes aims to do business in accordance with our values, we also have to stay in touch with the needs of society. One way of identifying risks, opportunities, and new trends, while at the same time living up to Novozymes'

ambition of being open and honest, is to engage with our stakeholders. We give high priority to understanding and living up to our stakeholders' expectations, as we wish to maintain a good reputation.

An example is our recently published tax policy, which is the result of an increased media debate on taxes and reflects our positioning on this topic. With the tax policy we strive to be open and give our stakeholders insight into how we operate in this area. The policy can be found at www.novozymes.com.

In our dialogue with stakeholders we naturally also promote our points of view, our solutions, etc. We want to ensure that this is done in a respectful way that does not create a risk of harming Novozymes' reputation. Novozymes has therefore established principles for ethical ways to influence our stakeholders. In other words, we have a management standard defining good business practice for dealing with authorities, policy-makers, and political parties.

To fulfill our commitment to society, Novozymes sets targets for sustainability performance and strives to be the best among our peers. We must always be up-to-date on the sustainability agenda relevant to our stakeholders and society at large. Through numerous annual meetings with our stakeholders, such as investors, politicians, customers, neighbors, and NGOs, we become aware of relevant issues and trends that provide valuable input for our strategic development and have done so for many years.

In 2010, a more systematic approach to sustainability trendspotting was implemented in order to better capture market opportunities, discover risks, spur innovation, and consequently maintain our role as a leader in sustainability. This external input, together with internal input from key functions, is used in our target-setting process once assessed by our Sustainability Development Board for materiality and relevance to Novozymes. It is also used to help prioritize focus areas in our overall strategic development.

SATISFIED CUSTOMERS

Novozymes commissioned a global Customer Satisfaction Measurement (CSM) study in 2010 to monitor the overall satisfaction and loyalty of our customers. CSM studies are one of the most important tools Novozymes has for measuring customer satisfaction, which is an integral part of our business operations - from coaching our sales force to complaint handling to key account management.

For the CSM study, a third-party survey partner selected a random, representative sample of customers for enzymes, microorganisms, and biopharmaceutical ingredients to participate in a comprehensive web-based survey questionnaire. The partner received 290 responses. The central indicator for the survey is a global customer satisfaction benchmark called the Loyalty Index, which is a two-dimensional measure of customer satisfaction (strength of relationship versus attraction). In 2010, an estimated 95% of our customers were either very satisfied or satisfied with their relationship with Novozymes. An estimated 59% of our customers find Novozymes "more attractive" than other suppliers of enzymes, microorganisms, and biopharmaceutical ingredients. Novozymes received an overall Loyalty Index score of 74 out of 100.

The survey also covered a wide range of parameters representing quality and customer satisfaction indicators throughout the value chain. Novozymes performed best in the product safety, packaging, and delivery categories.

Novozymes' account managers followed up on the survey by taking corrective actions with dissatisfied survey respondents and by interviewing key accounts that participated in the survey.

Customer feedback affects sustainability rating

Our customers' feedback on our ability to constantly improve customer satisfaction is important for our success. In line with our commitment to being transparent about our performance, we communicate customer satisfaction survey results to our stakeholders. Our customer satisfaction survey is also included in the assessment of Novozymes' sustainability performance that forms the basis for our rating by Dow Jones Sustainability Indexes (DJSI), where Novozymes in 2010 was named sector leader for the ninth time.

Long-term scenarios

Executive Management conducts an annual evaluation of opportunities for future growth. This evaluation is based on reports on long-term scenarios for each of the business areas, supplemented by selected key scenarios. The reports contain sensitivity analyses and, for expansion projects and larger investment proposals, an estimate of the net present value of the investment.

Part of this scenario work involves identifying potential bottlenecks for future growth, such as the need to expand production capacity and the availability of resources such as water.

Some of the scenarios presented to Executive Management spring from risks identified by the enterprise risk management setup.

Enterprise risk management setup

As well as the activities mentioned above to identify risks, Novozymes has a formal process to continually map and mitigate risks. All business units and vice presidents systematically report new risks and any changes to previously defined risks. This process, which is headed by the Vice President of Finance, ensures that top management has a high level of risk awareness, with involvement and ownership throughout the organization.

Reported risks are collated and mapped by the Risk Management Office on the basis of probability and possible consequences. Risks are assessed on the basis of both financial and reputational impact, and the reporting covers both financial and nonfinancial risks.

The aim of risk management at Novozymes is to ensure proactive management of key risks, so that efforts to reduce both probability and unwanted consequences will be made where possible.

Every six months, risks are reported to the Risk Management

Office. These are then assessed, and a shortlist of approximately 30 risks judged to be the most significant is reported to Executive Management. Twice a year, the most significant risks are also presented to and discussed with the Board of Directors.

This systematic and analytical approach to risk management enables Novozymes to achieve greater transparency and gives a stronger basis for making decisions about investing resources. In addition, it provides Executive Management with the opportunity to discuss risks and undertake the necessary actions in relation to the Group's risk profile.

